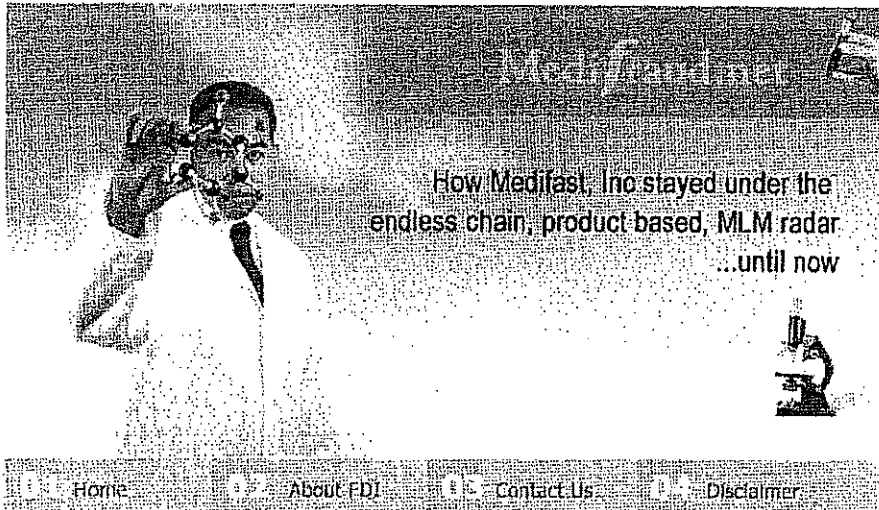


EXHIBIT 2



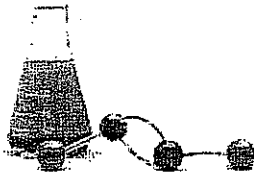
How Medifast, Inc stayed under the endless chain, product based, MLM radar...until now

OUR INVESTIGATION

- 1 [Expert's Report](#)
- 2 [Points of Similarity between Madoff and Medifast](#)
- 3 [Press Release](#)
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Home About FDI Contact Us Disclaimer

Welcome to our site



[Click Here](#) to read the report just released to the Fraud Discovery Institute by expert Robert FitzPatrick of Pyramid Scheme Alert.

In the report, Mr. FitzPatrick shows how the *Take Shape For Life* division of Medifast is nothing more than a Endless Chain Pyramid Scheme.

YouTube Video



Watch as Barry Minkow of the Fraud Discovery Institute compares the Endless Chain Pyramid Scheme business model of Medifast's *Take Shape For Life* division to the Ponzi Scheme perpetrated by Madoff. [Click Here](#) for the video

Resources

MEDIFAST - MADOFF??

[Click Here](#) to view the Points of Similarity between Madoff and Medifast.

Report details how Ponzi schemes and Endless Chain Pyramid Schemes are very much alike.

Press Release

New FDI report reveals Madoff and Medifast, Inc. (NYSE: MED) have too many points of similarity. [Click Here](#) to read.

Lab Results

2 FDA approved labs confirm high levels of lead in popular Medifast products. [Click Here](#) to see results.

Primary contact:
E-mail: info@FraudDiscovery.net
Phone: 888-300-8307

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Fraud Discovery Institute

EXHIBIT 3



Info@frauddiscovery.net

Phone & Fax:
1-888-300-8307

For Immediate Release

Title: New FDI Report Reveals Madoff and Medifast Inc. (NYSE:MED) have too many points of similarity--launch www.medifraud.net website

Sub-title: Consumer group releases results of 6-month undercover investigation of Medifast, Inc (NYSE:MED) including lead testing, 29 page expert's report, product testing, YouTube video and Bernie Madoff comparison.

San Diego, CA Tuesday February 17th, 2009

The Fraud Discovery Institute, Inc launched www.medifraud.net, a web site containing the results of a 6 month investigation into Medifast, Inc (NYSE:MED), a New York Stock Exchange, publicly traded company.

The site contains a 29 page report by expert, Robert FitzPatrick that concludes: "Medifast, in fact, offers a misleadingly promoted income scheme that cannot possibly fulfill this promise. Medifast does not actually offer a viable income opportunity but the illusion of one, as portrayed in the endless chain mirage. The income lure - that requires paying fees and buying Take Shape for Life products - is an endless chain scheme. The vast majority of all consumers that Medifast enrolls in its "business opportunity" and who serve as the engines of its growth are doomed to fail."

The site also unveils critical points of similarity between the Bernie Madoff massive Ponzi scheme and the recruitment-based multi-level marketing compensation plan of Medifast, Inc. According to the recently released report, just as Bernie Madoff had no real trading profits to distribute to investors and instead relied upon monies paid to investors to come from new investors; in like manner Medifast utilizes the same money transfer game by delegating the recruitment aspect of the scheme to its "coaches" through the promise of outrageous returns (\$8,000 to \$20,000 per month) which is the bait to bring in new recruits whose efforts enrich the upline, not the new distributor/coach. "Both Madoff and Medifast are also closed systems," said Barry Minkow, Co-Founder of the Fraud Discovery Institute, Inc. "They both rely upon the transfer of money between investors within the scheme as opposed to money from retail sales generated outside the scheme."

The www.medifraud.net web site also contains lab reports from two FDA approved, independent labs that tested some of the popular Medifast, Inc. products and were then analyzed by lawyer and Dietary Supplement Safety Committee Co-Founder Christopher E Grell who summarizes that the tested products were in clear violation of California's Proposition 65 when he states that the: "Medifast Dutch Chocolate contains 1.48 mcg per serving is 296% or 2.96X's more than Prop 65 allows. The second test was 1.46 mcg per serving or 292% or 2.92X's greater."



info@frauddiscovery.net

Phone & Fax:
1-888-300-8307

But perhaps the most surprising finding in this extensive, 6 month investigation was what was not found. According to Barry Minkow: "Medifast's disclosures to new recruits and Wall Street are hopelessly inadequate and worse than any other product-based MLM that we have ever encountered. They refuse to disclose failure and attrition rates which any potential party interested in the business opportunity ought to be aware of" said Mr. Minkow. "Moreover, while their disclosures about saturation, attrition and total number of coaches both active and inactive are not disclosed, their income opportunity figure of between 8 and 20 per month is not hard to find."

EXHIBIT 4

Points of Similarity Between Madoff and Medifast

*Click here for excerpts of the letter sent to SEC and FTC
arguing Ponzi and Endless Chain Pyramid Schemes are very much alike*

Recruiting Fresh Money

In Madoff's Scheme: He was responsible for recruiting new people into the scheme, whose money was used to pay earlier investors.

In Medifast: The company pushes the responsibility of recruiting new people into the scheme on to their "coaches", with funds from later coaches paying returns to earlier ones.

Closed System

In Madoff's Scheme: There were insufficient trading profits coming into the company. So money was transferred from new financial investors to pay off older ones within a closed system.

In Medifast: There is insufficient retail sales coming into the company. Investments are gained from "coaches", who must then recruit other coaches into the closed system to recoup their investments.

Affinity

In Madoff's Scheme: Financial Investors were led to think they were in private and exclusive system with a unique income opportunity that protected them from Recession. Many encouraged their own friends to also invest

In Medifast: Consumer Investors are led to believe they are in a Recession proof program, a unique income opportunity with "no cap." Many encourage their own friends to also invest.

Unheeded Complaints

In Madoff's Scheme: Complaints about Madoff went unheeded by authorities, despite whistle-blowers and evidence of fraud. The scheme appeared viable, and claimed to be a legitimate investment company. Some earlier investors were highly compensated and the others were unaware they were being defrauded; the numbers of participants were growing. By design and operation, the scheme caused the majority to lose. Regulator inaction allowed losses to mount.

In Medifast and other MLMs: Complaints about the nature of the MLM industry's false income promises and endless chain scheme go unheeded despite whistle blower reports and evidence of fraud – the constant churning of new recruits and major loss rates among consumer investors. The schemes appear viable and claim to be legitimate direct selling companies. Some early promoters are highly compensated. The others who fail and quit are unaware they were defrauded. By design and operation the schemes cause as many as 99% of consumers to lose money and 60-80% to quit each year. Regulator inaction allows losses to mount.

EXHIBIT 5

Law Offices of Christopher E. Grell

Attorneys At Law specializing in ephedra litigation, asbestos, dietary supplements, and PPA
The Broadlake Plaza, 360 22nd Street, Suite 320, Oakland, California 94612
Telephone: 510-832-2980 Fax: 510-832-2986

February 16, 2009

Dear Mr. Minkow;

I reviewed your expert's report on Medifast, Inc (including the update), the lab reports from BodyCote and Analytical Labs (both FDA approved labs), the Medifast web site with special focus on suggested frequency of consumption for the products tested and your 'Madoff/Medifast' pyramid and Ponzi comparison. As the Co-Founder of the Dietary Supplement Safety Committee with expertise on Prop 65, I have come to the following conclusions relating to your test results of certain popular Medifast products:

1. Medifast French Vanilla: The first test showed .973 mcg of lead per single serving. This is 109% or 1.09X's more than the .50 mcg of lead per day allowed under Prop 65. If the Attorney General ever decided to apply Prop 65 to this product, a warning label would be required based on just this one serving. If the recommended servings of two or three times a day are included, the number obviously goes up to between 309% or 3.09X's to 584% or 5.84X's higher than what Prop 65 would allow.

The second test of the same French Vanilla type product showed 1.25 mcg per single serving. This is 205% greater or 2.05X's higher than the .50mcg per day set forth in Prop 65. Again, if you added the total servings per day, the exposure would be substantially higher.

2. Medifast Dutch Chocolate: The test showed 1.48 mcg per single serving. This is 296% or 2.96X's more than Prop 65 allows.

The second test showed 1.46 mcg per single serving which is 292% or 2.92X's greater than Prop 65 allows.

In addition to the number of servings per day, these products are typically used with many other products that a person is supposed to take under the Medifast weight management plan. If these products showed similar lead levels, the potential for serious injury increases significantly.

Indeed, in order to sell as much product as possible and because, based on your expert's report, Medifast relies upon a closed system whereby little actual retailing to those outside the scheme or who are not "coaches", the "consumer" aka the

"coaches" are compelled to consume even higher than normal amounts of the product leading to even greater risk.

In short, it would appear, based largely on the company's realization that the best way to move product, when traditional retailing is not an option, is to get the "coaches " to purchase and consume the product in predictable and profitable time tables, leading to excessive consumptions of lead as well as other heavy metals that were detected in the tests that were done, that Medifast is putting profits over safety.

I also have some preliminary concern about Medifast's claim that their products do not appear to be involved with the "peanut" recall. As you may know, Medifast's competitor, Slimfast, made recalls relating to their products that contain peanuts, even though no reports of adverse events were made. Medifast on the other hand, has made no recalls of their nutritional bar products even though Medifast knows that these products are "Manufactured in a facility that uses tree nuts, wheat and peanuts."

In my view, the better part of wisdom would dictate that the company reconsider this apathetic approach to a very serious issue especially when certain competitors have already taken steps to protect the public against possible salmonella poisoning from contaminated products that either contain peanuts or that are "manufactured in a facility" where peanuts are used.

Indeed, in light of the fact that a number of Medifast's clinical studies, which Medifast relies on to promote the safety and efficacy of their products, were "funded" by Medifast, in my opinion, the safety of Medifast's products should be viewed with considerable suspicion.

Respectfully,

Christopher E Grell, Esq.



TESTING GROUP
www.bodycote.com
www.bodycotetesting.com

September 15, 2008

Fraud Discovery Institute Inc
9770 Carroll Center Rd
Ste F
San Diego, CA 92126

Attn: Christopher Grell, Esq
Barry Minkow

Re: Bodycote Job Number 108621

Dear Christopher Grell Esq, Barry Minkow

Enclosed is the revised report for Bodycote job number 108621. Per your request, we have changed the ID's as follows:

Originally Reported As:
Medifast 70 French Vanilla Shake
FV-52210 46133

Medifast 710 Dutch Chocolate Shake
DC-70-52110 49805

Now Reported As:
Medifast 70 French Vanilla Shake
FV-52210 46133
29498B2EXP110709OUD
Medifast 710 Dutch Chocolate Shake
DC-70-52110 49805
29648V1EXP010710OUD

We apologize for any inconvenience this may have caused you.

Please return or destroy the original laboratory report previously sent to you.

Sincerely,

Bodycote Testing Group

A handwritten signature in black ink, appearing to read "Eric W. Lindsay".

Eric W. Lindsay
General Manager
EWL:lo



TESTING GROUP
www.bodycote.com
www.bodycotetesting.com

September 15, 2008

Fraud Discovery Institute Inc
9770 Carroll Center Rd
Ste F
San Diego, CA 92126

Attn: Christopher Grell, Esq
Barry Minkow

Job No: 108621R1

LO

REVISED LABORATORY REPORT

Samples Received: Two (2) Samples
Date Received: 09/11/2008
Original Report Issued: 09/12/2008
Purchase Order No: CREDIT CARD

The samples were analyzed as follows:

Analysis

Page

Lead for CA Prop 65 by SOP 7130, Rev 5
Selected Metals by SOP 7040, Rev 9

2
3 - 4

Michael Shelton
Senior Staff Chemist

Herman van Halbeek, Ph.D.
Senior Staff Chemist

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Page 1 of 4



Fraud Discovery Institute Inc
Job No: 108621R1

Lead for CA Prop 65 by SOP 7130, Rev 5
Quantitative Analysis Report
Isotope Dilution Inductively Coupled Plasma-Mass Spectrometry

<u>Sample ID</u>	<u>Lead(µg/g)</u>	<u>Serving Size (g)</u>	<u>Lead (µg/serving)</u>
Medifast 70 Dutch Chocolate Shake DC70-52110 49805 29648V1EXP010710OUD	0.0458	32.4	1.48
Medifast 70 French Vanilla Shake FV70-52210 46133 29498B2EXP110709OUD	0.0312	31.2	0.973
Detection Limit:	0.002		

Date Analyzed: 09-12-08

Quality Control Summary

Sample: Medifast 70 French Vanilla Shake FV70-52210 46133, 29498B2EXP110709OUD

<u>Analyte</u>	<u>Sample Result</u>	<u>Duplicate Result</u>	<u>Average Result</u>	<u>Sample RPD</u>	<u>Spike Conc</u>	<u>Spike Result</u>	<u>Spike % Rec</u>
Lead	0.0312	0.0352	0.0332	12.0	0.995	0.968	94
Control Limits:				<25			80 - 120

Date Analyzed: 09-12-08



Fraud Discovery Institute Inc
Job No: 108621R1

Selected Metals by SOP 7040, Rev 9
Quantitative Analysis Report
Inductively Coupled Plasma-Mass Spectrometry

Parts Per Million (µg/g)

<u>Sample ID</u>	<u>Parts Per Million (µg/g)</u>	<u>Detection Limit (µg/g)</u>	<u>Serving Size (g)</u>	<u>Micrograms Per Serving</u>
Medifast 70 Dutch Chocolate Shake DC70-52110 49805, 29648V1EXP0107100UD				
Arsenic	0.035	0.003	32.4	1.1
Cadmium	0.035	0.003	32.4	1.1
Mercury	ND	0.003	32.4	ND (<0.1)
Detection Limit:	0.003	0.003	0.003	0.003

Date Analyzed: 09-12-08



Fraud Discovery Institute Inc
Job No: 108621R1

Selected Metals by SOP 7040, Rev 9
Quantitative Analysis Report
Inductively Coupled Plasma-Mass Spectrometry

<u>Sample ID</u>	<u>Parts Per Million (µg/g)</u>	<u>Detection Limit (µg/g)</u>	<u>Serving Size (g)</u>	<u>Micrograms Per Serving</u>
Medifast 70 French Vanilla Shake FV70-52210 46133, 29498B2EXP110709OUD				
Arsenic	0.030	0.003	31.2	0.94
Cadmium	0.018	0.003	31.2	0.56
Mercury	ND	0.003	31.2	ND (<0.09)
Detection Limit:	0.003	0.003	0.003	

Date Analyzed: 09-12-08

Quality Control Summary

Sample: Medifast 70 French Vanilla Shake FV70-52210 46133, 29498B2EXP110709OUD

<u>Analyte</u>	<u>Sample Result</u>	<u>Duplicate Result</u>	<u>Average Result</u>	<u>Sample RPD</u>	<u>Spike Conc</u>	<u>Spike Result</u>	<u>Spike % Rec</u>
Arsenic	0.030	0.034	0.032	NA	2.5	2.88	114
Cadmium	0.018	0.018	0.018	NA	2.5	2.13	84
Mercury	ND	ND	ND	NA	0.25	0.210	84

Date Analyzed: 09-12-08

Sample: Laboratory Fortified Blank (LFB)

<u>Analyte</u>	<u>Blank Result</u>	<u>Spike Conc</u>	<u>Spike Result</u>	<u>Spike % Rec</u>
Arsenic	ND	2.5	2.14	86
Cadmium	ND	2.5	2.12	85
Mercury	ND	0.25	0.247	99

Date Analyzed: 09-12-08

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Page 4 of 4



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www.bodycote.com
www.bodycotetesting.com

September 16, 2008

Fraud Discovery Institute Inc
9770 Carroll Center Rd
Ste F
San Diego, CA 92126

Attn: Christopher Grell, Esq
Barry Minkow

Job No: 108690

JO

LABORATORY REPORT

Samples Received: Two (2) Samples
Date Received: 09/08/2008
Date Requested: 09/15/2008
Purchase Order No: NO CHARGE

The sample was analyzed as follows:

Analysis

Page

Lead for CA Prop 65 by SOP 7130, Rev 5

2

Michael Shelton
Senior Staff Chemist

Samina N. Hussain
Senior Chemist



Fraud Discovery Institute Inc
Job No: 108690

Lead for CA Prop 65 by SOP 7130, Rev 5
Quantitative Analysis Report
Isotope Dilution Inductively Coupled Plasma-Mass Spectrometry

<u>Sample ID</u>	<u>Lead(µg/g)</u>	<u>Serving Size (g)</u>	<u>Lead (µg/serving)</u>
Medifast 70 French Vanilla Shake Lot 29651B3EXP123109OUD FV-52210 46133	0.040	31.2	1.25
Medifast 70 Dutch Chocolate Shake Lot 29649V1EXP010810OUD DC70-52110 49805	0.045	32.4	1.46

Detection Limit: 0.02

Date Analyzed: 09-16-08

Quality Control Summary

Sample: Medifast 70 Dutch Chocolate Shake DC70-52110 49805 Lot 29649V1EXP010810OUD

<u>Analyte</u>	<u>Sample Result</u>	<u>Duplicate Result</u>	<u>Average Result</u>	<u>Sample RPD</u>	<u>Spike Conc</u>	<u>Spike Result</u>	<u>Spike % Rec</u>
Lead	0.0449	0.0499	0.0474	NA	1.00	0.981	93
Control Limits:				<25			80 - 120

Date Analyzed: 09-16-08



ANALYTICAL LABORATORIES IN ANAHEIM, INC.

2951 Saturn Street Unit C, Brea, CA 92821 Phone: (714) 524-9988 Fax: (714) 524-9926
 Website: <http://www.analytical-lab.com>

Fraud Discovery Institute, Inc.

9770 Carroll Center Rd.

San Diego, CA 92126

Tel: (858) 549-7729 Fax: (858) 547-6359

Job #: 27031 Sample: Medifast Dutch Chocolate Shake

Lot #:

Attn: Barry Minkow

Receive Date: 09/15/2008

Report Date: 09/19/2008

Analysis	Claim	Result
Per Serving		
Arsenic		0.914 mcg/32.4g
Lead		0.914 mcg/32.4g
Cadmium		1.04 mcg/32.4g
Mercury		< 0.0324 mcg/32.4g

 Method: ICP/MS for Mercury, Cadmium, Lead, Arsenic

Chemist:

A handwritten signature in black ink, appearing to be 'J. Ji', followed by the date '09/19/2008'.

Director, David Ji:

A handwritten signature in black ink, appearing to be 'David Ji', followed by the date '09/22/2008'.



ANALYTICAL LABORATORIES IN ANAHEIM, INC.

2951 Saturn Street Unit C, Brea, CA 92821 Phone: (714) 524-9988 Fax: (714) 524-9926
 Website: <http://www.analytical-lab.com>

Fraud Discovery Institute, Inc.

9770 Carroll Center Rd.

San Diego, CA 92126

Tel: (858) 549-7729 Fax: (858) 547-6359

Job #: 27030 Sample: Medifast French Vanilla Shake

Lot #:

Attn: Barry Minkow

Receive Date: 09/15/2008

Report Date: 09/19/2008

Analysis	Claim	Result
Per Serving		
Arsenic		1.11 mcg/31.2g
Lead		0.521 mcg/31.2g
Cadmium		0.618 mcg/31.2g
Mercury		0.0462 mcg/31.2g

Method: ICP/MS for Mercury, Cadmium, Lead, Arsenic

Chemist:

[Signature]

09/19/08

Director, David Ji:

[Signature]

09/19/2008



ANALYTICAL LABORATORIES IN ANAHEIM, INC.

2951 Saturn Street Unit C, Brea, CA 92821 Phone: (714) 524-9988 Fax: (714) 524-9926
Website: <http://www.analytical-lab.com>

Fraud Discovery Institute, Inc.

9770 Carroll Center Rd.

San Diego, CA 92126

Tel: (858) 549-7729 Fax: (858) 547-6359

Job #: 27030 Sample: Medifast French Vanilla Shake

Lot #:

Attn: Barry Minkow

Receive Date: 09/15/2008

Report Date: 09/19/2008

Analysis	Claim	Result
Arsenic		35.7 ppb
Lead		16.7 ppb
Cadmium		19.8 ppb
Mercury		1.48 ppb

Method: ICP/MS for Mercury, Cadmium, Lead, Arsenic

Chemist:

A handwritten signature in black ink, appearing to be 'David Ji'.

09/19/2008

Director, David Ji:

A handwritten signature in black ink, appearing to be 'David Ji'.

09/19/2008



ANALYTICAL LABORATORIES IN ANAHEIM, INC.

2951 Saturn Street Unit C, Brea, CA 92821 Phone: (714) 524-9988 Fax: (714) 524-9926
 Website: <http://www.analytical-lab.com>

Fraud Discovery Institute, Inc.

9770 Carroll Center Rd.

San Diego, CA 92126

Tel: (858) 549-7729 Fax: (858) 547-6359

Job #: 27031 Sample: Medifast Dutch Chocolate Shake

Lot #:

Attn: Barry Minkow

Receive Date: 09/15/2008

Report Date: 09/19/2008

Analysis	Claim	Result
Arsenic		28.2 ppb
Lead		28.2 ppb
Cadmium		32.1 ppb
Mercury		< 1 ppb

Method: ICP/MS for Mercury, Cadmium, Lead, Arsenic

Chemist:

[Signature] 09/19/2008 Director, David Ji: *[Signature]* 09/19/2008

EXHIBIT 6



info@frauddiscovery.net

Phone & Fax:
1-888-300-8307

For Immediate Release

Title: FDI debunks Medifast, Inc. (NYSE:MED) response to report

Sub-title: FDI raises new questions about Medifast, Inc's (NYSE:MED) use of a small, one office accounting firm to audit company books; calls it 'Madoff' like.

San Diego, CA Wednesday, February 18th, 2009

The Fraud Discovery Institute, Inc has just released a rebuttal to the Medifast, Inc (NYSE:MED) press release whereby the company claims that less than 1% of their commissions from 2008 is related to recruiting and none of that revenue is paid out to coaches as part of their compensation. But expert Robert FitzPatrick notes that: "This statement is yet another example of Medifast's policy of diversion and concealment concerning its endless chain pay scheme. It appears to refer only to fees for joining the scheme as a recruiter. These fees range from \$100 to \$300 per recruiter with the two fee options offering respectively higher levels of reward.

Medifast's endless chain money transfer is facilitated not in fees – these are only the tickets of admission – but in product sales, which are gained by misleading income claims and promises, based on the endless chain pay scheme."

He continues: "By referencing only fees, Medifast omits from its denial that approximately 50% of Take Shape for Life's revenue from product purchases is transferred from recruits to Medifast's multi-level recruiters. The great majority of this sum is transferred to those in the upper levels of the recruitment pyramid. The endless chain lure and payment system used by Medifast is a deceptive marketing practice in which consumers are lured to pay fees and make product purchases as coaches and are offered rewards for recruiting other coaches in an endless chain. Income promises and claims are based on 'unlimited expansion' in a limited marketplace. The pay plan is a blue print for endless chain recruiting, offering far more rewards and incentives for recruiting than retailing. This recruitment-based pay plan is being hyped to new levels as a lucrative 'business opportunity' during a Recession."

Moreover, the company claims to be a member of the Direct Sellers Association, which is neither a government agency nor a consumer advocacy group and whose members have included such companies as 'Trek Alliance', which was prosecuted by the FTC for operating as a pyramid scheme and fined for making false income claims and 'Your Travel Biz', currently being sued by the Attorney General of California for violating Penal Code 327-the same claim made by FDI in their recent report about Medifast, Inc (NYSE:MED)

Barry Minkow, the Co-Founder of the Fraud Discovery Institute, Inc states that: "For Medifast Inc. to defend endless chain pyramid allegations by stating their proud affiliation with the Direct Sellers Association would be the moral equivalent of Bernie Madoff saying that he attended the Charles Ponzi School of Investment Advisors."



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Phone & Fax:
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Mr. Minkow also questions why a Maryland based, New York Stock Exchange Public company utilizes the services of a small, one location regional accounting firm (recently inspected by the PCAOB http://www.pcaobus.org/Inspections/Public_Reports/2008/Bagell_Josephs_Levine.pdf) with a total of six partners in the entire firm and who are located in Marlton, New Jersey to audit its books. "National accounting firms with experience in dealing with product based, multi-level marketing companies know from experience to insist on material disclosures in SEC filings of things like failure and attrition rates, saturation and other relevant data that any new 'coach' recruit would need to evaluate before taking the plunge into the Take Shape for Life business opportunity. The choice of this firm appears to strategically allow the company to get away with making fewer disclosures than any other public company in their industry." Mr. Minkow added "I believe that is yet another point of similarity with the Madoff enterprise."

EXHIBIT 7



info@frauddiscovery.net

Phone & Fax:
1-888-300-8307

For Immediate release

Title: Fraud Discovery Institute blasts Medifast, Inc (NYSE:MED) says record first quarter sales attributed to well-disguised and cleverly-concealed pyramid scheme

Sub Title: In new report, FDI compares points of similarity in Medifast, Inc. with two direct selling companies that share like compensation plans to establish incontrovertible evidence of material misrepresentation to recruits and to Wall Street investors

Thursday, May 21st, 2009

In a surprise move, the company known for its outspoken criticism of the direct selling industry, the Fraud Discovery Institute, Inc today released a report portraying direct seller Avon Corporation in a positive light (www.frauddiscovery.net).

To prove that Medifast, Inc (NYSE:MED) is a "scheme pyramid" business opportunity as evidenced by its record breaking first quarter earnings in the middle of a recession, the Fraud Discovery Institute, Inc enlisted the help of nationally recognized expert Robert Fitzpatrick, who issued an 11 point comparison between Medifast and Avon showing Medifast comes up short.

Some of the points that Mr. Fitzpatrick made included:

- Downlines are limited to 3 levels of recruiters at Avon. Medifast has 10 levels of downline recruiters. This is a huge distinction. It limits the potential for "kingpins" to develop that can control the business. It forces retail sales, since no one could make a lot of money merely on the personal purchases of a vast downline..
- The upline people receive a shrinking percentage of each sale as they rise in rank. At Medifast the upper levels get an increasingly larger piece of each sale. An upliner who is five levels away from the sale can receive more on the sale than the person who actually makes the sale. At Avon, you make more only if total sales volume grows.
- Avon does not link the value of its product to making money from selling it. Medifast claims that success in losing weight includes having financial security and then offers its own sales rep work as the way to achieve that security. At Medifast, endless chain recruiting becomes what you sell, the central focus.

"So the big question remains, how does Medifast hit record earnings?" asks Barry Minkow. "The key is all in what they do not say, like how many of their 'coaches' fail and quit within one year's time, or how much does the average 'coach' earn annually, or finally how much of these record sales come simply from the personal use of the coaches? These are all questions any reasonable person is entitled to ask before jumping into a business opportunity," said Barry Minkow.

And while Medifast falls far short of Avon, they do compare well with the recently prosecuted multi-level marketing company YTB Travel which, according to the California Attorney General,



info@frauddiscovery.net

Phone & Fax:
1-888-300-8307

must, as of July 1, 2009, disclose to all prospects several things including the average income of potential business building recruits (including expenses against that income) and the amount of money earned by the average person who joins to build a business. To emphasize the seriousness of these material non disclosures, the Fraud Discovery Institute, Inc, created a website especially for Medifast (www.medifraud.net), where various documents are posted to corroborate these assertions.

"The real reason Medifast resists transparency in the area of disclosing attrition and collapse rates is the material adverse effect it would have on these 'blow out earnings' as no one would intentionally and knowingly sign up for a doomed by design, endless chain business opportunity," added Minkow.

EXHIBIT 8

Jon Leibowitz,
Chairman, United States Federal Trade Commission

Jerry Brown
Attorney General, California

Dear FTC Chairman Leibowitz and California Attorney General Brown:

Pyramid Scheme Alert and Fraud Discovery Institute join voices to formally ask that you initiate investigations of the sales company, Medifast Inc. (NYSE: MED), and in particular its multi-level marketing division, Take Shape for Life.

The recent prosecution and settlement of the California Dept. of Justice case against a similar company, Your Travel Biz.com (OBB: YTBLA.OB), establishes a standard for business practice and law enforcement that we ask you to apply also to this company.

The points of similarity between these two companies include:

1. Both identify themselves as "multi-level marketing" companies that offer all consumers an "income opportunity" based upon selling their product and recruiting other consumers into the business opportunity.
2. Both companies charge a fee of hundreds of dollars for the opportunity to earn income from reselling the income opportunity.
3. Both employ 10-levels of pyramid recruiters, which grants enormous financial leverage to the top recruiters while dooming the latest recruits to positions of loss unless they are able to build their own "downline" of new consumer/investors.
4. Both employ an "endless chain" incentive to consumers for investing in the business and purchasing the products. Regardless of market size and saturation in any given area both companies promote continuous and unlimited recruitment of more sales people.
5. Both utilize pay plans that drive endless chain recruiting activity over retail sales. The plans pay more to the recruiters than the retailers and apply payment formulas that transfer the greater share of total payments to the top levels of the pyramid.
6. Both companies showed remarkable growth in the midst of an economic downturn and within respective industries and product sectors that are contracting. Such dramatic upturns under these conditions are classic red flags.

A key reason for an investigation is the lack of transparency for consumers and shareholders who are solicited to invest in the Medifast "business opportunity" and securities. The same lack of transparency, which constitutes deception, was a cause for the 2007 FTC action against another multi-level marketing company, Burnlounge, Inc., which also charged consumers for the right to sell an endless chain income opportunity. In that case, the FTC alleged that Burnlounge "made deceptive earnings claims, and failed to disclose that most consumers don't receive substantial income, but lose money."

We, therefore, respectfully ask that requirements be applied to *Take Shape for Life* that were required in the settlement between the California Attorney General and Your Travel Biz.com and in the Burnlounge settlement with the FTC.

Take Shape for Life recruits consumers into its "business opportunity" without providing consumers with the basic information needed to do due diligence. Though the

company's viability depends on selling an income opportunity to consumers to become "coaches," neither consumers nor shareholders have information about the financial status of the coaches, their incomes, turnover rates, recruitment rates, profitability, costs, or odds for success. Among disclosures required in the YTB settlement, which are not provided to consumers or shareholders of Medifast, include:

- Median average income of sales representatives.
- Typical costs incurred
- Number of sales representatives who had quit the business
- Total number of sales representatives active and inactive.
- Percentage of sales representative who did not receive any compensation
- A statement that later recruits do not have the same chance for success that earlier ones do.

The settlement with Your Travel Biz.com also addressed a financial factor that is fundamental to legitimacy. This factor is how much of the company's total revenue is generated directly and ultimately from the sales representatives versus retail consumers.

We request that Medifast be required to disclose this basic and critical piece of information to both consumers and shareholders. In other words, while we applaud the effort of the California Attorney General and the renewed concern of the FTC to crack down on material non disclosures of certain income promises to potential recruits (as evidenced by the Proposed Business Opportunity Rule), we would simply request that a perception of detection and a perception of prosecution begin through the consistent application of what lead to the YTB action—specifically that the abovementioned disclosures be ordered by law enforcement to be made. In fact on page 16 of Medifast's Inc.'s most recent 10K, it states about the potential of these mandatory disclosures that: *"...should the governing body alter or enforce the law in an unanticipated way, there may be a negative result on the company's operations."*¹

In the financial markets, lack of regulatory oversight resulted in abuse and debased standards on Wall Street. The same consequences occur on Main Street as millions of consumers are solicited to invest in multi-level marketing "business opportunities." Oversight and regulation are more needed than ever during the current Recession. It is worth noting that both Your Travel Biz.com and Take Shape or Life have been promoted as safe havens in troubled economic times.

We respectfully request your immediate responses.

Sincerely,

Robert L. FitzPatrick
Pyramid Scheme Alert

Barry Minkow
Fraud Discovery Institute

¹ Please see http://www.sec.gov/Archives/edgar/data/910329/000114420409014237/v142765_10k.htm.

EXHIBIT 9

Eleven Key Distinctions Between Medifast and Avon

1. Avon has paid staff (district managers) that recruit the "Sales Leaders". This keeps the focus on sales and does not allow the channel to be nothing more than a self-generating recruitment machine. Avon invested in a professional sales management staff. Medifast, in typical MLM fashion, only has recruiters managing recruiters. The conflicts of interest are legion in that model. Everyone is living off everyone else. No one really represents the company or the customer.
2. Avon extends credit to its sales reps. First orders are shipped and then billed. Future orders are fulfilled after earlier orders are paid off. This prevents forcing payments in advance, as Medifast and all other MLMs do.
3. Only the "sales leaders," who are recruited by professional staff, can recruit. All other -- the great majority -- reps are not allowed to recruit unless they become "leaders". In Medifast, every "coach" is automatically an authorized recruiter. So, in Avon, most salespeople are actually selling product. They can't recruit. To remain active, they only need to place an order of any size each month to stay active.
4. It only costs \$10 to become an Avon rep. Medifast charges \$299 or \$99, with many rewards to buy in at the higher level.
5. Downlines are limited to 3 levels of recruiters at Avon. Medifast has 10 levels of downline recruiters. This is a huge distinction. It limits the potential for "kingpins" to develop that can control the business. It forces retail sales, since no one could make a lot of money merely on the personal purchases of a vast downline.
6. The upline people receive a shrinking percentage of each sale as they rise in rank. At Medifast the upper levels get an increasingly larger piece of each sale. An upliner who is five levels away from the sale can receive more on the sale than the person who actually makes the sale. At Avon, you make more only if total sales volume grows. This promotes growing the business, not just rising in rank. The people making the sales earn a lot more than those doing the recruiting. At Medifast, the recruits collectively, earn more than the seller.
7. The bottom level rep at Avon can earn 40% by selling Avon products on a retail basis to end-user customers. At Medifast the bottom level coach earns 14.7% of the sale to a client. The only way to make money at Medifast is to recruit more coaches.
8. There is an obvious distinction between a sales representative and a customer at Avon while at Medifast, coaches and customers are blended so that recruiting is treated as "sales." At Avon, sales reps buy at wholesale and sell at retail. At

Medifast, everyone pays the same! This leads inevitably to converting customers to sales reps.

9. Avon does not link the value of its product to making money from selling it. Medifast claims that success in losing weight includes having financial security and then offers its own sales rep work as the way to achieve that security. At Medifast, endless chain recruiting becomes what you sell, the central focus.

10. Advertising and brand awareness: Avon invests heavily in advertising its brand in support of its sales reps. Take Shape for Life does no advertising. All if marketing funds are used in paying recruiters -- 50% of all revenue. The recruit at the bottom confronts a market with little name recognition against large competitors. This leads to selling the "opportunity" (which needs no brand) over the meal replacement product (which needs marketing support, but has none.)

11. There is one more factor that is more circumstantial, but still relevant. As we have noted, Bernie Madoff's ultimate mistake was his success when markets were down. His consistent success became a signal of wrongdoing. Medifast's strange rise in sales during a Recession is also a red flag. All its competitors' (Nutrisystem and Weight Watchers, for example) sales are down. Why is Medifast shooting up?

Looking at North America for comparison (Medifast is primarily in North America), Avon's sales reflect the real market for cosmetics. It declined in Q-1'09 over same period in 08. So did Revlon and L'Oreal. In fact, Avon's sales in North America are less now than they were in 2004 by 13%. The total number of reps is way up, yet overall sales are down. So, we can see that Avon's sales reflect a real market for its products, not just the market for an "income opportunity."

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EXHIBIT 10

5 Points of Similarity Between Medifast and YTB (YourTravelBiz.com)

1. **Both Medifast and YTB International have 10 levels of commission payouts.** That means on any given sale of actual products or services, the person selling it will receive a small commission, while 9 other levels will receive a total commission exceeding the seller's commission.
2. **Medifast and YTB both have seemingly "low" startup costs, with fees of \$300 and \$400 respectively.** Yet this fee looks far more significant when compared to the minimal fee of \$10 charged by Avon to new business builders. In reality, charging each new recruit several hundreds of dollars to join can add millions to the company's bottom line each year.
3. **Neither Medifast nor YTB have disclosed the average income for one of their coaches or business builders.** YTB will now start disclosing this in July 2009 pursuant to a settlement with the California Attorney General, but apparently believed in the past that potential recruits didn't need to know such things.
4. **Medifast and YTB both do not disclose their "churn rates."** They purposely do not disclose the number of people recruited during the year or the number of people who quit the business during the year, effectively concealing the failure rates for recruits.
5. **Neither Medifast nor YTB disclose the amount of revenue the company receives from actual retailing of products or services,** versus how much revenue is actually derived from recruits who are personally consuming the products or services. This is an important distinction because revealing such numbers would show a potential recruit the true market for sales to third-party, bona fide customers.